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Documents show SEC first bought Rewald's assurances about his firm

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The U.S. Securities and Exchange Commission accepted Ronald Rewald's assurances in 1981 that his company was a management consulting business that gave little investment advice, according to documents introduced at Rewald's trial yesterday.

In fact, Rewald was in the process of persuading almost 400 persons to pull \$22 million out of other investments and put the money into "investment savings accounts" at Bishop Baldwin Rewald Dillingham & Wong, the government contends.

Two years later, when the SEC began to discover what was going on, the threat of possible criminal prosecution "stunned" Rewald as if he'd been hit "by a ton of bricks," a witness said yesterday.

On Aug. 25, 1981, an SEC examiner from Washington, D.C., named Lawrence Friend called on Rewald in Bishop Baldwin offices in Honolulu.

Actually, Friend was looking for a company called CMI, which Rewald had registered in 1976 as an investment adviser.

From 1976 on, Rewald led the SEC to believe he had no criminal record, which he had, and that he graduated from Marquette University, which he hadn't.

Friend didn't discover those omissions, but found other "deficiencies."

There were no financial books and records. But Friend accepted Rewald's story that they were in the hands of an accountant in Los Angeles.



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Likewise, Friend did not prepare a trial balance for the company's general ledger, again because he was told the necessary records were "not available."

The company had failed to file its most recent required registration update form.

The takeover of CMI by Bishop Baldwin wasn't reported as required.

Eight months after Friend's on-scene investigation in Honolulu he wrote in his report:

"Because of the limited advisory services, we do not recommend an examination of the books and records which were not available at the above address."

He recommended the company be informed it was failing to make disclosures and reports and keep records, as required.

But it wasn't until 1983 that the SEC, alerted by concerned investors, began a serious investigation into Bishop Baldwin.

Rewald reacted as if he had been hit with a ton of bricks, a San Francisco lawyer testified yesterday.

David Day, who joined Rewald's firm a few months before it collapsed in July 1983, said he was startled to find employees making sales pitches for investment accounts.

Believing many company claims were false, Day called in experts in securities laws, who wrote Day on July 18, 1963:

"It appears to us on the basis of information currently available to us that a violation of . . . provisions of the Federal Securities Laws has in fact occurred and that if the matter were presented to a court in a civil or criminal proceeding, the defendants would probably have no defense."

Confronted with that information on July 25, Rewald "was stunned," Day testified yesterday.

"He looked like he'd been knocked back in his chair by a ton of bricks. His face was ashen, his hands were shaking. He was shaken up."

Rewald had said there were only about 20 accounts involved, and promised to stop accepting money and close the accounts by July 15, Day said.

Then Rewald pushed the date back to Aug. 10, saying he'd been tied up with administrative work, Day said. And Rewald had also been off on a luxury liner cruise to Canada. When Day asked for a meeting, Rewald said he was too busy meeting "with the governor and the mayor."

Now, the lawyers told Rewald they had done some "fancy footwork" to stall the SEC, but had to have documents to support the company's case in a negotiation with the agency on Aug. 3.

A few days before that deadline, and after a TV broadcast raised questions about Bishop Baldwin, on July 29, Rewald checked into a Waikiki hotel and slashed his wrists.